OTTO ENERGY LIMITED

ABN: 56 107 555 046

Half-year financial report

31 December 2019

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CORPORATE DIRECTORY

Directors	Mr Ian Boserio – Non-Executive Chairman Mr Matthew Allen – Managing Director and Chief Executive Officer Mr John Jetter – Non-Executive Director Mr Paul Senycia – Non-Executive Director Mr Kevin Small –Executive Director
Company Secretary	Ms Kaitlin Smith
Key Executives	Mr Matthew Allen – Managing Director and Chief Executive Officer Mr Kevin Small – Chief Geophysicist Mr Sergio Castro – Chief Financial Officer Mr Will Armstrong – Vice President Exploration and New Ventures
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Website address	www.ottoenergy.com
ABN	56 107 555 046

DIRECTORS' REPORT

For the half-year ended 31 December 2019

The Directors present their report together with the consolidated financial statements of the Group comprising Otto Energy Limited (referred to as 'Otto' or the 'Company') and its subsidiaries for the half-year ended 31 December 2019 (the 'Group').

Directors

The Directors in office at any time during the half-year and until the date of this report are set out below. All Directors were in office for the entire period unless otherwise stated.

Mr John Jetter resigned as Chairperson effective 21 November 2019 and is replaced by Mr Ian Boserio. Mr John Jetter remains as non-executive director. Mr Ian Macliver ceased his non-executive director role on 21 November 2019.

Mr John Jetter
Mr Matthew Allen
Mr Ian Macliver – retired 21 November 2019
Mr Ian Boserio
Mr Paul Senycia
Mr Kevin Small

Company Secretary

Mr David Rich resigned as Company Secretary on 4 November 2019 and is replaced by Ms Kaitlin Smith.

Review and results of operations

Consolidated net loss from operations after income tax for the current half-year was $2.7 million (2018: net loss of $4.5 million). This improvement was primarily driven by lower exploration expenditures during the current period of $8.1 million (2018: $17.5 million) which included the drilling of the Hilcorp Energy Mustang and Talos Energy GC-21 "Bulleit" wells. Partially offsetting this improvement was a decrease in revenues due to lower commodity prices and decreased production at SM 71 due to a planned shut-in for the month of December for a compressor upgrade. The decreased SM71 revenue was slightly offset by increased production at the Lightning field which began production in June 2019. The decrease in administration costs from $2.9 million in 2018 to $2.5 million in 2019 reflects the consolidation of the Houston office move.

Production and Development

Gulf of Mexico – South Marsh Island 71 (SM 71)

Production from Otto's NRI share (40.625%) in the SM 71 oil field in the Gulf of Mexico for the six months to 31 December 2019 was 210,660 bbls of oil and 222,372 Mcf of gas generating revenue of US$15.3 million before royalties and US$12.5 million after royalties.

As of 31 December 2019, the SM71 facility has produced approximately 2.015 million barrels of oil (gross) since production began and over 2.85 billion cubic feet of gas (gross). As of 31 December 2019, the SM71 platform gross production rate was approximately 3,000 barrels of oil per day and 2.950 million cubic feet of gas per day and no water from all three wells.

In September 2019 the Operator provided the annual reserves statement completed by Collarini and Associates as at 30 June 2019. The SM 71 reserves and prospective resources as at 30 June 2019 are set out in the table below.

SM 71	Gross (100%)			Otto Net (40.625%)		
	Oil (Mbbl)	Gas (MMscf)	MBoe	Oil (Mbbl)	Gas (MMscf)	MBoe
Proved Producing	2,918	2,575	3,347	1,185	1,046	1,360
Proved Behind Pipe	580	355	639	236	144	260
Proved Undeveloped	1,622	962	1,782	659	391	724
Proven (1P)	**5,120**	**3,892**	**5,768**	**2,080**	**1,581**	**2,344**
Probable	5,608	3,627	6,213	2,278	1,473	2,524
Proven Plus Probable (2P)	**10,728**	**7,519**	**11,981**	**4,358**	**3,055**	**4,867**
Possible	2,686	1,861	2,996	1,091	756	1,217
Proven Plus Probable Plus Possible (3P)	**13,414**	**9,380**	**14,977**	**5,449**	**3,811**	**6,085**
Total Prospective Resource (best estimate, unrisked)	3,665	49,569	11,927	1,489	20,137	4,845

Texas Gulf Coast – Lightning Field

The first well in the Lightning field, the Green #1, commenced production during the second quarter of CY 2019, with the first full month of production occurring in July 2019. The Green #1 well is currently producing 14.3 MMscf/day in raw gas and over 400 bbl/day in condensate. Otto's 37.5% Working Interest share of this is 5.4 MMscf/d and 150 bbl/d.

Production from Otto's 37.5% working interest share (after royalties) in the Lightning field for the six months to 31 December 2019 was 11,221 bbls of oil, 16,027 bbls of NGL's and 343,962 Mcf of gas generating revenue of US$1.5 million.

While drilling the Green #2 development well during the fourth quarter of CY 2019, challenging downhole conditions in the open-hole portion of the well resulted in the commencement of a sidetrack out of the casing and to the same planned bottom hole location and total depth as the original Green #2 well. The Green #2ST well reached total depth in late-December. The operator, Hilcorp Energy ("Hilcorp"), obtained encouraging Quad-combo LWD (Logging while drilling) Gamma Ray, Resistivity, Density and Neutron Porosity over the target intervals which are similar in character and potentially greater in thickness than the initial responses in the Green #1 productive well. Petrophysical evaluation of log data indicates 146 feet of net pay over seven different sands. Depending on the porosity and water saturation cut-offs applied, there is the potential for up to an additional 175 feet of net pay. Production from this well began in February 2020.

Otto engages Ryder Scott Company, a qualified external petroleum engineering consultant, to conduct an independent assessment of the Lightning Field reserves on behalf of Otto. The Lightning field reserves and prospective resources as at 30 June 2019 are set out in the table below.

Lightning	Gross (100%)			Otto Net (28.569%)		
	Oil (Mbbl)	Gas (MMscf)	MBoe	Oil (Mbbl)	Gas (MMscf)	MBoe
Proved Producing	301	10,024	1,971	86	2,864	563
Proved Behind Pipe	102	3,410	671	29	974	192
Proved Undeveloped	305	10,155	1,997	87	2,901	571
Proven (1P)	**708**	**23,589**	**4,639**	**202**	**6,739**	**1,326**
Probable	486	16,196	3,185	139	4,627	910
Proven Plus Probable (2P)	**1,194**	**39,785**	**7,824**	**341**	**11,366**	**2,235**
Possible	978	32,607	6,413	279	9,315	1,832
Proven Plus Probable Plus Possible (3P)	**2,172**	**72,392**	**14,237**	**620**	**20,682**	**4,067**
Total Prospective Resource (best estimate, unrisked)			-	-	-	-

Gulf of Mexico – Green Canyon 21

The "Bulleit" appraisal well commenced drilling on 6 May 2019. On 13 June 2019, the Company announced that the upper target, the DTR-10 sand, was intersected and a commercial outcome was confirmed. On 8 August 2019 Otto announced the deeper MP sands were intersected and a net 110 feet of TVD oil pay was intersected in a high-quality reservoir. Completion operations are underway. Talos will complete the well as a subsea tieback with a standard completion; tying back to the Talos operated GC 18A Platform, which is currently being upgraded. Procurement of subsea pipelines and associated equipment was undertaken during the quarter as the upgrade continues. Completion of the "Bulleit" well is expected by mid-2020 with first production in late Q3 CY 2020.

Otto's reserves estimates are completed annually. Otto engages Ryder Scott Company, a qualified external petroleum engineering consultant, to conduct an independent assessment of the Green Canyon 21 Field reserves. The GC-21 reserves and prospective resources as at 29 October 2019 are set out in the table below

GC21	Gross (100%)			Otto Net (13.336%)		
	Oil (Mbbl)	Gas (MMscf)	MBoe	Oil (Mbbl)	Gas (MMscf)	MBoe
Proved Producing	-	-	-	-	-	-
Proved Behind Pipe	-	-	-	-	-	-
Proved Undeveloped	5,582	5,243	6,455	744	699	861
Proven (1P)	**5,582**	**5,243**	**6,455**	**744**	**699**	**861**
Probable	6,123	6,753	7,248	817	901	967
Proven Plus Probable (2P)	**11,705**	**11,996**	**13,704**	**1,561**	**1,600**	**1,828**
Possible	1,710	1,755	2,002	228	234	267
Proven Plus Probable Plus Possible (3P)	**13,415**	**13,751**	**15,706**	**1,789**	**1,834**	**2,095**
Total Prospective Resource (best estimate, unrisked)	-	-	-	-	-	-

Reserves Cautionary Statement
Oil and gas reserves and resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates that were valid when originally calculated may alter significantly when new information or techniques become available. Additionally, by their very nature, reserve and resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional drilling and analysis, the estimates are likely to change. This may result in alterations to development and production plans which may, in turn, adversely impact the Company's operations. Reserves estimates and estimates of future net revenues are, by nature, forward looking statements and subject to the same risks as other forward looking statements.

Prospective Resources Cautionary Statement
The estimated quantities of petroleum that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Exploration

USA Gulf Coast

On 31 July 2018 Otto announced that it had entered into a joint venture with Hilcorp Energy which will see it earn a 37.5% working interest in an eight well portfolio of prospects in the Onshore/Near Shore USA Gulf Coast. The wells are being drilled by Hilcorp, a highly experienced operator based in Houston.

Otto will earn a 37.5% working interest by paying 50.0% of the costs of drilling and either setting casing or plugging and abandoning the initial exploration well plus lease acquisition costs at each of the eight prospects.

Four wells have now been drilled (Big Tex, Lightning, Don Julio 2 and Mustang) with Lightning being a discovery. Big Tex, Don Julio 2 and Mustang have been deemed non-commercial.

On 7 November 2019 the company advised that flow testing at the Mustang Prospect exploration well, Thunder Gulch #1 had been completed. The well was drilled to 18,164 ft and logged at least 57' of apparent pay in a sand that tied to a seismic amplitude event that covered 400 acres. Logging indicated some possible pay in a second zone that tied to a similar amplitude event. Both zones have been extensively perforated and tested producing non-commercial volumes of gas. No liquid hydrocarbons were recovered. Hilcorp and Otto have agreed that the low flow rates observed are not sufficient to economically justify the future costs of a fracture stimulation, facility and pipeline connection.

The remaining wells in the Package 1 program are all currently in various stages of preparation, with securing of key drilling permits being the delay in the commencement of drilling. In the case of the Beluga and Tarpon wells, permits required from the regulator have been in progress for several months with no final resolution date. In the case of the Mallard well, land use access for pipelines has been delaying the commencement of drilling. The operator has not been able to secure a land use permit from the landowner for the Oil Lake prospect and the drilling of this prospect will likely not proceed.

Prospect Name (State)	Working Interest	Net Revenue Interest	Target Depth (TVD) ft	Probability of Success	Prospective Resources (MMboe) Otto Net Revenue Interest			
					P90	P50	Mean	P10
Beluga, TX	37.5%	30.00%	13,000	45%	0.2	0.9	1.4	3.4
Mallard, LA	37.5%	29.63%	11,000	64%	0.1	0.3	0.5	1.3
Tarpon, TX	37.5%	29.06%	14,000	34%	2.2	7.0	10.5	23.5
Oil Lake, LA	37.5%	29.06%	14,500	45%	0.3	1.0	1.3	2.7

Prospective Resources Cautionary Statement –
The estimated quantities of petroleum that may potentially be recovered by the application of future development projects relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

Additional Upside

Under the agreement with Hilcorp (JEDA) Otto has a right of first offer to a subsequent Gulf Coast program, if Hilcorp elect to offer such a program to third parties. Otto has evaluated a number of prospects, including replacements for the Oil Lake prospect, and not elected to proceed at this stage. Otto remains in dialogue with Hilcorp about future drilling opportunities.

Gulf of Mexico – VR 232

As previously reported, Otto acquired Byron Energy's 50% interest in, and operatorship of, VR 232 at no cost. VR 232 is adjacent to Otto's 50% owned South Marsh Island Block 71 oil field and production platform. Otto has ownership of recently reprocessed 3D seismic coverage over the SM 71 and VR 232 area and is evaluating prospect potential of the area.

Alaska – Western Blocks

After purchasing additional regional 3D seismic data within the Western Blocks, the Joint Venture is still reviewing its plan to either reprocess / reinterpret the legacy 3D seismic data or monetise the blocks.

Alaska – Central Blocks

Through its agreements with Great Bear Petroleum Operating ("Great Bear") in 2015, Otto has between an 8% and 10.8% working interest in 54 leases (covering 154,295 gross acres) held by Pantheon Resources plc (AIM:PANR) on the Alaskan North Slope ("Central Blocks"). Pantheon acquired Great Bear Petroleum Ventures I LLC and Great Bear Petroleum Ventures II LLC (collectively: Great Bear) in 2018. The leases are in a major play fairway south of the Prudhoe Bay and Kuparuk giant oil fields. Extensive, modern 3D seismic coverage, existing well control and proximity to the all-weather Dalton Highway and Trans-Alaskan Pipeline System (TAPS) means the acreage is well positioned for exploration. The existing 3D seismic has allowed development of an extensive prospect portfolio which includes at least 4 well locations. Otto's exposure on the first two wells is limited to US$2.6m/well. Otto had no activity in this area during the December Quarter 2019.

Borrowings

On 4 November 2019 the Company announced it had entered into a three year senior secured US$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). This facility will be used to fund the Company's current and future developments, including Green Canyon 21, Lightning and any new discoveries arising from the remainder of the current programs.

The initial commitment under the Facility is US$35 million with an additional US$20 million subject to further credit approval from Macquarie. Key Terms of the Facility include:

- US$25 million available under Tranche A1. The Company currently has US$22 million drawn under this Tranche;
- Additional US$10 million committed and available on successful exploration or commencement of commercial production at Green Canyon 21 (Tranche A2);
- Interest rate of LIBOR plus 8.0% per annum;
- Matures in November 2022 (36 months from initial drawdown);
- Quarterly principal repayments commencing 31 March 2020;
- Senior secured non-revolving facility with security over US based assets; and
- The Facility may be cancelled by the Company after 12 months without penalty once any drawn funds are repaid.

<u>Option Issue</u>

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company at an exercise price of A$0.08 to access Tranche A1. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date.

Significant events after the balance date

Since 31 December 2019 the following material events have occurred:

<u>Lightning</u>

On 24 February 2020, the Company announced that Hilcorp, the operator of the Lightning field, had successfully completed the Green #2 well in the Tex Miss 1 interval with 66 feet of perforations out of a total of 146 feet of calculated net pay. On that date, the well was producing 12.4 MMscf/day of gas and over 350 bbl/day of condensate. Further perforations may eventually be added to the well. Construction of upgraded facility and flowlines was completed in early February and the capacity of the sales tap has been increased to approximately 36 MMscf/day. It is planned to now run both the Green #1 and the Green #2 wells and evaluate the potential for further wells to be added to the field.

During evaluation, detailed information was obtained that confirms that there are multiple levels of hydrocarbon pay in the Lightning field. The upper zone, the Tex Miss 1, is the reservoir unit from which both Green #1 and Green #2 are producing. The lower Tex Miss 2/3 zone, which is aerially significantly larger and potentially thicker than the Tex Miss 1, has been tested in both the Green #1 and Green #2 wells. In both tests, production from the Tex Miss 2/3 zone has indicated that the zone has lower permeability than the Tex Miss 1 and has not been able to establish steady production. It was planned to evaluate the Tex Miss 2/3 zone with the inclusion of a fracture stimulation in the Green #2 well, however bottom hole conditions following the need to sidetrack the Green #2 well did not prove suitable for such an operation to be attempted. It is planned that a future well will be designed to test the ability to stimulate the Tex Miss 2/3 zone and unlock the significant upside potential from this zone in future drilling campaigns.

<u>SM71 F5 well</u>

On 20 February 2020 Otto announced that the SM71 joint venture had elected to undertake the drilling of the F5 well at the SM71 field. The well will be drilled using the Enterprise 264 currently at the SM71 F platform and is expected to commence drilling in March 2020.

There are no other significant events after the balance date to disclose.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

The auditor's independence declaration is included on page 9 of this report.

This report is made in accordance with a resolution of Directors.

Mr I Boserio
Director

12 March 2020

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DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF OTTO ENERGY LIMITED

As lead auditor for the review of Otto Energy Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Otto Energy Limited and the entities it controlled during the period.

Phillip Murdoch

Director

BDO Audit (WA) Pty Ltd

Perth, 12 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	Note	**31/12/2019** US$'000	**31/12/2018** US$'000
Operating revenue (net)	5	14,008	17,289
Cost of sales	6	(3,829)	(2,953)
Gross Profit		**10,179**	**14,336**
Other income	5	24	84
Profit on disposal of property, plant and equipment		-	(2)
Exploration expenditure	7	(8,107)	(17,536)
Finance costs	8	(546)	1,493
Losses on derivatives		(1,723)	-
Administration and other expenses	8	(2,494)	(2,853)
Loss before income tax		**(2,667)**	**(4,478)**
Income tax expense		(2)	(3)
Loss after income tax for the period		**(2,669)**	**(4,481)**
Other comprehensive income that may be recycled to profit or loss			
Total other comprehensive income		-	-
Total comprehensive loss for the period		**(2,669)**	**(4,481)**
Earnings per share			
Basic loss per share (US cents)		(0.11)	(0.27)
Diluted loss per share (US cents)		(0.11)	(0.27)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the half-year ended 31 December 2019

	Note	31/12/2019 US$'000	30/06/2019 US$'000
Current assets			
Cash and cash equivalents	9	25,719	7,383
Trade and other receivables		2,328	3,311
Other assets		1,218	1,238
Total current assets		**29,265**	**11,932**
Non-current assets			
Right-of-use assets	10	460	-
Property, plant and equipment		179	106
Oil and gas properties	11	37,481	30,982
Other assets	12	400	393
Total non-current assets		**38,520**	**31,481**
Total assets		**67,785**	**43,413**
Current liabilities			
Borrowings (net of transaction costs)	13	6,979	-
Trade and other payables		8,414	4,473
Lease liabilities		111	-
Derivative financial instruments	14	1,394	-
Provisions		159	173
Total current liabilities		**17,057**	**4,646**
Non-current liabilities			
Borrowings (net of transaction costs)	13	12,131	-
Lease liabilities	15	346	-
Provisions		3,146	1,589
Total non-current liabilities		**15,623**	**1,589**
Total liabilities		**32,680**	**6,235**
Net assets		**35,105**	**37,178**
Equity			
Contributed equity	16	125,041	125,041
Reserves		14,663	14,067
Accumulated losses		(104,599)	(101,930)
Total equity		**35,105**	**37,178**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2019

	Contributed equity	Share-based payments reserve	Foreign currency translation reserve	Accumulated losses	Total
	US$000	US$000	US$000	US$000	US$000
Balance at 1 July 2018	90,704	9,659	4,188	(83,521)	21,030
Loss for the period	-	-	-	(4,481)	(4,481)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(4,481)	(4,481)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs) – refer note 16	13,801	-	-	-	13,801
Equity benefits issued to employees – refer note 17	-	90	-	-	90
Balance at 31 December 2018	104,505	9,749	4,188	(88,002)	30,440
Balance at 1 July 2019	125,041	9,879	4,188	(101,930)	37,178
Loss for the period	-	-	-	(2,669)	(2,669)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(2,669)	(2,669)
Transactions with owners in their capacity as owners:					
Issue of shares (net of costs) – refer note 16	-	-	-	-	-
Issue of options – refer note 13	-	528	-	-	528
Equity benefits issued to employees – refer note 17	-	68	-	-	68
Balance at 31 December 2019	125,041	10,475	4,188	(104,599)	35,105

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2019

	31/12/2019 US$'000	31/12/2018 US$'000
Cash flows from operating activities		
Oil and gas sales (net of royalties)	14,840	18,720
Payments to suppliers and employees	(4,195)	(5,274)
Payments for exploration and evaluation	(7,611)	(18,638)
Interest received	24	78
Interest paid on convertible note	-	(1,162)
Other income	-	6
Net cash inflow/(outflow) used in operating activities	**3,058**	**(6,270)**
Cash flows from investing activities		
Payments for property, plant and equipment	(281)	(159)
Payments for development	(3,889)	(2,091)
Bond for development asset	(7)	(750)
Net cash outflow used in investing activities	**(4,177)**	**(3,000)**
Cash flows from financing activities		
Proceeds from issue of shares	-	14,726
Transaction costs relating to issue of shares	-	(925)
Proceeds from borrowings	22,000	-
Transaction costs relating to borrowings/convertible notes	(2,530)	-
Net cash inflow from financing activities	**19,470**	**13,801**
Net increase/(decrease) in cash and cash equivalents	18,351	4,531
Cash and cash equivalents at the beginning of the half-year	7,383	5,945
Effects of exchange rate changes on cash	(15)	(143)
Cash and cash equivalents at the end of the half-year	**25,719**	**10,333**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Corporate information

The half-year consolidated financial report of the Group for the six months ended 31 December 2019 was authorised for issue in accordance with a resolution of the Directors on 11 March 2020.

Otto Energy Limited is a company incorporated and domiciled in Australia whose shares are publicly traded. The principle activities of the Group are described in the consolidated financial statements of the Group for the year ended 30 June 2019 which are available at www.ottoenergy.com.

2. Basis of preparation

The half-year consolidated financial report for the six months ended 31 December 2019 has been prepared in accordance with AASB 134 Interim Financial Reporting.

The half-year consolidated financial report does not include all the information and disclosures required in the annual financial report, and should be read in conjunction with the Group's financial report for the year ended 30 June 2019 which is available at www.ottoenergy.com.

3. Changes to the Group's accounting policies

New and amended standards adopted by Otto Energy Limited

3(a) The Group has applied the following standard for the first time for their interim reporting period commencing 1 July 2019

- AASB 16 *Leases ("AASB 16")*

The Group had to change its accounting policies and make certain adjustments following the adoption of AASB 16, however adoption did not give rise to any material transitional or reporting date (31 December 2019) adjustments. This is disclosed in note 3(b).

- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

This Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes when there is uncertainty over income tax treatments. The Interpretation addresses (a) whether an entity considers uncertain tax treatments separately; (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and (d) how an entity considers changes in facts and circumstances. The adoption of this Interpretation has had no impact on the current or previous reporting period and as such there have been no adjustments to the opening balance of accumulated losses.

3(b) AASB 16

The Group has adopted AASB 16 with a date of initial application of 1 July 2019 using the modified retrospective approach and applied the practical expedients per AASB16.C10(a) and (c). Lease assets and liabilities are measured at the present value of future payments on the initial date of application, being 1 July 2019.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit and loss on a straight-line basis over the period of the lease.

On adoption of AASB 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 17 *Leases.* These liabilities were measured at the present value of the remaining lease payments, discounted using the rate implicit in the rental lease. The borrowing rate applied to the lease liabilities on 1 July 2019 was 7.75%.

3. Changes to the Group's accounting policies (continued)

	01/07/19 US$'000
Operating lease commitments at 30 June 2019	292
Discounted using the lessee's borrowing rate	254
Lease liability recognised as at 1 July 2019	254

The Group has not restated comparatives for the reporting period as permitted under the specific transitional provisions in the standard. The reclassification and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The impact on the statement of financial position as at 1 July 2019 on the adoption of AASB16 are noted below:

	01/07/19 US$'000
Lease Liabilities	
Current	56
Non-current	198
Total Lease Liabilities	254
Right-of-use assets	
Right-of-use - Buildings	257
Right-of-use – Plant and equipment	19
Total Right-of-use assets	276
Prepayments	22

The leases recognised by the Group under AASB 16 on transition relate to office building and equipment. AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The depreciation of the lease assets and interest on the lease liabilities are recognised in the consolidated profit or loss and other comprehensive income statement.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for leases with a remaining term of less than 12 months as at 1 July 2019 as short-term leases

Leases accounting policy (applied from 1 July 2019)

When a contract is entered into, the Group assesses whether the contract contains a lease. A lease arises when the Group has the right to direct the use of an identified asset which is not substitutable and to obtain substantially all economic benefits from the use of the asset throughout the period of use.

3. Changes to the Group's accounting policies (continued)

The Group separates the lease and non-lease components of the contract and accounts for these separately. The Group allocates the consideration in the contract to each component on the basis of their relative stand-alone prices.

Leases as a lessee

Lease assets and lease liabilities are recognised at the lease commencement date, which is when the assets are available for use. The assets are initially measured at cost, which is the present value of future lease payments adjusted for any lease payments made at or before the commencement date, plus any make good obligations and initial direct costs incurred.

Lease assets are depreciated using the straight-line method over the lease term. Periodic adjustments are made for any remeasurements of the lease liabilities and impairment losses, assessed in accordance with the Group's impairment policies.

Lease liabilities are initially measured at the present value of future minimum lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined, and are subsequently measured at amortised cost using the effective interest rate. Minimum lease payments are fixed payments.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the lease assets, with any excess recognised in the consolidated profit or loss and other comprehensive income statement.

Short term leases and lease of low value assets

Short term leases (lease term of 12 months or less) and leases of low value assets are recognised as incurred as an expense in the consolidated profit or loss and other comprehensive income statement. Low value assets comprise plant and equipment.

4. Segment information

The Group has identified its operating segments based on the internal management reports that are reviewed and used by the executive management team in assessing performance and in determining the allocation of resources. The operating segments identified by management are based on the geographical locations of the business which are as follows: Gulf of Mexico (USA) and Other. Discrete financial information about each of these operating segments is reported to the executive management team on at least a monthly basis.

The segment information for the reportable segments for the half-year ended 31 December 2019 and comparable period is as follows:

4. Segment information (continued)

31 December 2019	**Gulf of Mexico (USA)**	**Other**	**Consolidated**
	US$'000	US$'000	US$'000
Operating revenue	14,008	-	14,008
Cost of sales	(3,829)	-	(3,829)
Gross profit	**10,179**	**-**	**10,179**
Other income	12	12	24
Exploration expenditure	(8,097)	(10)	(8,107)
Finance costs	(542)	(4)	(546)
Administration and other expenses	(1,995)	(499)	(2,494)
Gains/Losses on derivatives	(1,723)	-	(1,723)
Loss before income tax	**(2,166)**	**(501)**	**(2,667)**
Income tax expense	-	(2)	(2)
Loss after income tax for the period	**(2,166)**	**(503)**	**(2,669)**
Total non-current assets	38,518	2	38,520
Total assets	62,213	5,572	67,785
Total liabilities	32,146	534	32,680

31 December 2018	**Gulf of Mexico (USA)**	**Other**	**Consolidated**
	US$'000	US$'000	US$'000
Operating revenue	17,289	-	17,289
Cost of sales	(2,953)	-	(2,953)
Gross profit	14,336	-	14,336
Other income	17	67	84
Exploration expenditure	(17,116)	(420)	(17,536)
Finance costs	(17)	1,510	1,493
Administration and other expenses	(1,729)	(1,126)	(2,855)
Loss before income tax	(4,509)	31	(4,478)
Income tax expense	-	(3)	(3)
Loss after income tax for the period	(4,509)	28	(4,481)
30 June 2019			
Total non-current assets	31,478	3	31,481
Total assets	38,769	4,644	43,413
Total liabilities	5,555	680	6,235

5. Revenue and other income

	31/12/19 US$'000	31/12/18 US$'000
Oil sales	15,278	19,417
Gas sales	1,403	1,813
Natural gas liquids	189	-
Total sales	16,870	21,230
Less: Royalties(i)	(2,862)	(3,941)
Operating revenue (net)	14,008	17,289
Interest income(ii)	24	78
Other income	-	6
	24	84

(i) SM71 operating revenue is shown net of royalty payments payable to the (USA) Office of Natural Resources Revenue. Royalty payments are 18.75% of revenue under the terms of the SM 71 lease. Lightning revenue is shown net of payments to land owners.

(ii) Interest income is recognised using the effective interest rate method.

Recognition and measurement

Revenue is recognised when or as the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. If the consideration promised includes a variable component, the Group estimates the expected consideration for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

Sale of oil & gas

Revenue from the sale of SM71 oil & gas is recognised and measured in the accounting period in which the goods and/or services are provided based on the amount of the transaction price allocated to the performance obligations. The performance obligation is the supply of oil & gas over the contractual term; the units of supply represent a series of distinct goods that are substantially the same with the same pattern of transfer to the customer. The performance obligation is considered to be satisfied as the customer receives the supply through the pipeline, based on the units delivered. Hence revenue is recognised over time.

Revenue from Lightning oil sales is recognised upon transfer of the product to the purchaser's transportation mode, currently via truck for oil, and at the production facilities for gas which is the point that title passes. Hence revenue is recognized at a point in time.

6. Cost of sales

	31/12/19 US$'000	31/12/18 US$'000
Gathering and Production charges	1,474	1,204
Depreciation of capitalised developments	2,355	1,749
Total Cost of Sales	3,829	2,953

	31/12/19	31/12/18
	US$'000	US$'000

7. Exploration expenditure

Exploration expenditure – Gulf of Mexico	8,097	17,116
Exploration expenditure – Alaska	10	510
Exploration expenditure – Other	-	(90)
	8,107	17,536

Recognition and measurement

Costs incurred in the exploration stages of specific areas of interest are expensed against the profit or loss as incurred. All exploration expenditure, including general permit activity, geological and geophysical costs, new venture activity costs and drilling exploration wells, is expensed as incurred. The costs of acquiring interests in new exploration licences are expensed. Once an exploration discovery has been determined, evaluation and development expenditure from that point on is capitalised to the Consolidated Statement of Financial Position as oil and gas properties.

Exploration expenditure in relation to the Gulf of Mexico/Gulf Coast includes the exploration drilling of the Mustang ($3.6M) prospects as well costs incurred to 31 December 2019 in the drilling to the MP sands exploration target in the GC 21 Bulleit well ($4.1M).

	31/12/19	31/12/18
	US$'000	US$'000

8. Other expenses

Finance costs		
Interest on convertible note – refer Note 13	-	757
Interest on borrowings - refer Note 13	359	-
Interest on lease liabilities	9	-
Accretion of effective interest on convertible note – refer Note 13	-	199
Fair value adjustment on embedded derivative element of convertible note – refer Note 13	-	(2,634)
Convertible note extension/success fee	-	37
Amortisation of borrowing costs	165	131
Other	13	17
	546	(1,493)
Administration and other expenses		
Employee benefits expense		
Defined contribution superannuation	42	31
Share based payment expense	68	90
Other employee benefits expenses	1,623	1,273
	1,733	1,394

8. Other expenses (continued)

	31/12/19 US$'000	31/12/18 US$'000
Depreciation expense		
Right-of-use assets		
Right-of-use assets - buildings	34	-
Right-of-use assets – plant and equipment	10	-
Total depreciation expense right-of-use assets	44	-
Property, plant and equipment		
Furniture and equipment	30	25
	30	25
Total depreciation expense	74	25
Other expenses		
Corporate and other costs (net of recharges)	441	866
Business development	232	424
Foreign currency losses	14	144
	687	1,434
Total Administration and other expenses	2,494	2,853

9. Cash and cash equivalents

	31/12/19 US$'000	30/06/19 US$'000
Cash at bank	20,719	7,383
Restricted cash - Debt Service Reserve Account (DSRA)	5,000	-
Balance at end of period	25,719	7,383

On 2nd November 2019, the Company entered into a three-year senior secured US$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). Under the terms of the agreement a Debt Service Reserve Account (DSRA) is required with a balance at 31 December 2019 of at least $5,000,000. The DSRA may only be applied in reduction of the loan.

Cash at bank includes $4,840,000 in a loan utilisation account which in accordance with the Facility agreement may only be withdrawn to fund approved exploration and development activities.

10. Right-of-use assets

	31/12/19 US$'000	30/06/19 US$'000
Right-of-use assets		
Land and buildings – right-of-use	484	-
Less: Accumulated depreciation	(34)	-
	450	-
Plant and equipment – right-of-use	19	-
Less: Accumulated depreciation	(9)	-
	10	-
Total right-of-use assets	460	-

Additions to the right-of-use assets during the half-year were $227,000

11. Oil and gas properties

	31/12/19 US$'000	30/06/19 US$'000
Producing and development assets		
At cost		
SM71 balance at beginning of period	23,632	27,151
SM71 expenditure for the period	307	1,440
SM71 amortisation of assets	(1,983)	(4,959)
SM71balance at end of period	21,956	23,632
Lightning balance at beginning of period	1,934	-
Lightning expenditure for the period	4,562	1,934
Lightning amortisation of assets	(371)	-
Lightning balance at end of period	6,125	1,934
GC-21 balance at beginning of period	5,416	-
GC-21 expenditure for the period	3,984	5,416
GC-21 amortisation of assets	-	-
GC-21 balance at end of period	9,400	5,416
Total oil and gas properties including decommissioning assets	37,481	30,982

Capitalised development and evaluation costs as at 31 December 2019 relate to the SM 71, Lightning and GC-21 oil developments in the Gulf of Mexico (including provision for decommissioning).

12. Other non-current assets

	31/12/19 US$'000	30/06/19 US$'000
Bonds	400	393
Deposits	-	-
Balance at end of period	400	393

13. Interest bearing loans and borrowings

<u>Borrowings</u>

	31/12/19 US$'000	30/06/19 US$'000
Current Secured		
Balance at the beginning of the period	-	-
Borrowings – at cost	8,000	-
Less: Facility transaction costs – at cost	(1,186)	-
Add: Facility transaction cost - amortisation	165	-
Balance at the end of the period	6,979	-
Non - Current Secured		
Balance at the beginning of the period	-	-
Borrowings – at cost	14,000	-
Less: Facility transaction costs – at cost	(1,869)	-
Balance at the end of the period	12,131	-

On 2nd November 2019, the Company entered into a three-year senior secured US$55 million term debt facility (Facility) with Macquarie Bank Limited (Macquarie). This Facility will be used to fund the Company's current and future developments, including Green Canyon 21, Lightning and any new discoveries arising from the remainder of the current programs.

The initial commitment under the Facility is US$35 million with an additional US$20 million subject to further credit approval from Macquarie.

Key Terms of the Facility include:

The initial US$35 million tranche is committed as follows:

- US$25 million available on facility close (Tranche A1);
- Additional US$10 million committed and available on successful exploration or commencement of commercial production at Green Canyon 21 (Tranche A2);
- Interest rate of LIBOR plus 8.0% per annum;
- Maturity date 36 months from initial drawdown;

13. Interest bearing loans and borrowings (continued)

- Quarterly principal repayments commencing 31 March 2020;
- Senior secured non-revolving facility with security over US based assets; and
- The Facility may be cancelled by the Company after 12 months without penalty once any drawn funds are repaid.

Option Issue

In addition to customary upfront fees payable to Macquarie, the Company issued to Macquarie 42.5 million options to subscribe for fully paid ordinary shares in the Company. A further 42.5 million options will be issued on initial draw of Tranche A2 and will expire four years after issue date. The key pricing terms of the option issue include:

- 42.5 million options at an exercise price of A$0.08 vesting on initial draw down of Tranche A1 funding (6 November 2019) and expiring on 5 November 2023

At 31 December 2019, $22 million was drawn under the Facility and future drawdowns are at the discretion of the Board and management of Otto. As such 42.5 million options have vested at the reporting date and an expense of $528,000 has been capitalised against borrowings and is amortised over the life of the facility. The fair value of the options was calculated using a Black-Scholes model.

Transaction costs are accounted for under the effective interest rate method. These costs are incremental costs that are directly attributable to the Facility and include Facility origination fees, legal fees and other costs relating to the establishment of the Facility. The balance of unamortised transaction costs (excluding the fair value of options issued) of $2.4 million is offset against the facility borrowings of $22 million. Total capitalised transaction costs relating to the facility agreement are $2.5 million (excluding fair value of options issued).

The facility agreement has certain financial covenants that the Company has to comply with. All such financial covenants have been complied with in accordance with the facility agreement.

14. Derivative financial instruments

	31/12/19	**30/06/19**
	US$'000	US$'000
Current liabilities		
Oil hedging contracts – cash flow hedges	1,394	-
Total derivative financial instrument liabilities	1,394	-

Recognition and measurement
Derivatives are initially recognised at their fair value when the Group becomes a party to the contract and are subsequently measured at fair value through profit or loss. The Group has not adopted Hedge Accounting under AASB 9 *Financial Instruments.*

15. Lease liabilities

	31/12/19	**30/06/19**
	US$'000	US$'000
Current		
Lease liabilities	111	-
Total current lease liabilities	111	-

15. Lease liabilities (continued)

	31/12/19 US$'000	30/06/19 US$'000
Lease liabilities	346	-
Total non-current lease liabilities	346	-

Lease liabilities relate to the adoption of AASB 16 Leases on 1 July 2019.

16. Contributed equity

a) Share capital

	31/12/19 Number	30/06/19 Number	31/12/19 US$'000	30/06/19 US$'000
Balance at beginning of period	2,460,464,725	1,530,928,490	125,041	90,704
Issue of shares	-	922,198,024	-	34,237
Shares issued on conversion of notes	-	2,599,211	-	100
Shares issued on exercise of performance rights	-	4,739,000	-	-
Balance at end of period	2,460,464,725	2,460,464,725	125,041	125,041

(i) Share placements

a. August 2018 at AUD0.059 per share, converted to USD at the exchange rate on the transaction date of 0.7372. Net of share issue costs.

b. April 2019 at AUD0.053 per share, converted to USD at the exchange rate on the transaction date of 0.7124. Net of share issue costs.

(ii) Share entitlements:

a. Institutional entitlement issued August 2018 at AUD0.059 per share, converted to USD at the exchange rate on the transaction date of 0.7372. Net of share issue costs.

b. Institutional entitlement issued April 2019 at AUD0.053 per share, converted to USD at the exchange rate on the transaction date of 0.7124. Net of share issue costs.

c. Retail entitlement issued August 2018 at AUD0.059 per share, converted to USD at the exchange rate on the transaction date of 0.7307. Net of share issue costs.

d. Retail entitlement issued April 2019 at AUD0.053 per share, converted to USD at the exchange rate on the transaction date of 0.7020. Net of share issue costs.

(iii) Shares issued to J Jetter on conversion of 100,000 convertible notes April 2019 at conversion price AUD0.05418 and converted to USD at 0.7101

(iv) Shares issued on exercise of performance rights November 2018 (4,729,000) and February 2019 (10,000)

17. Share-based payments

There were no performance rights issued to employees or directors for the half year ending 31 December 2019. For the half year ended 31 December 2019, the Group recognised a share-based payments expense of $68,154 in the Consolidated Statement of Profit or Loss and Other Comprehensive
Income (31 December 2018: $90,222). Included in this expense was a reversal of $30,485 in relation to the following lapsed unlisted performance rights.

Number	Details of Lapsed Performance Rights
468,667	Unlisted Employee and Director Performance Rights on or before 29 November 2020
744,000	Unlisted Employee and Director Performance Rights on or before 15 November 2023
4,630,000	Unlisted Employee Performance Rights lapsed on 31 December 2019

18. Fair value measurement

a) Fair values

The following table shows the carrying amounts and fair values of financials liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

	Level	Carrying Amount		Fair Value	
		31/12/19 US$'000	30/06/19 US$'000	31/12/19 US$'000	30/06/19 US$'000
Financial liabilities measured at fair value					
Derivative hedging instruments	Level 1	1,394	-	1,394	-
		1,394	-	1,394	-

<u>Fair value hierarchy</u>

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 – the fair values are measured using inputs for the assets or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, borrowings, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

19. Contingent liabilities

There are no contingent liabilities at balance date.

20. Commitments

Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

	31/12/19 US$'000	31/12/18 US$'000
Not later than one year	4,000	8,360
Later than one year but not later than five years	500	510
	4,500	8,870

Under the Joint Exploration and Development Agreement with Hilcorp dated 31 July 2018, in the event of a default of its obligations, Otto Energy (USA) Inc is required to pay Hilcorp liquidated damages (LD's) of $1,000,000 for each prospect that is not an earned prospect. As at 31 December 2019, the potential contractual LD's are $4,000,000 representing 4 undrilled wells.

Capital expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

Not later than one year	11,590	-
	11,590	-

Capital expenditure commitments relate to the GC-21 development. The operator, Talos Energy, Inc is progressing development plans to bring the well into production in late Q3 2020.

Operating lease arrangements

Operating lease arrangements relate to the lease of a compressor on the SM 71 F platform. The term is for a minimum 54 months from 1st December 2019. These obligations do not meet the criteria under AASB 16 Leases and are not provided for in the financial statements.

Exploration expenditure contracted for at the reporting date but not recognised as liabilities are as follows:

Not later than one year	103	193
Later than one year but not later than five years	362	295
	465	488

21. Related parties

There have been no changes to related parties since the 30 June 2019 financial statements.

22. Events after the reporting period

Since 31 December 2019 the following material events have occurred:

Lightning

On 24 February 2020, the Company announced that Hilcorp, the operator of the Lightning field, had successfully completed the Green #2 well in the Tex Miss 1 interval with 66 feet of perforations out of a total of 146 feet of calculated net pay. On that date, the well was producing 12.4 MMscf/day of gas and over 350 bbl/day of condensate. Further perforations may eventually be added to the well. Construction of upgraded facility and flowlines was completed in early February and the capacity of the sales tap has been increased to approximately

36 MMscf/day. It is planned to now run both the Green #1 and the Green #2 wells and evaluate the potential for further wells to be added to the field.

During evaluation, detailed information was obtained that confirms that there are multiple levels of hydrocarbon pay in the Lightning field. The upper zone, the Tex Miss 1, is the reservoir unit from which both Green #1 and Green #2 are producing. The lower Tex Miss 2/3 zone, which is aerially significantly larger and potentially thicker than the Tex Miss 1, has been tested in both the Green #1 and Green #2 wells. In both tests, production from the Tex Miss 2/3 zone has indicated that the zone has lower permeability than the Tex Miss 1 and has not been able to establish steady production. It was planned
to evaluate the Tex Miss 2/3 zone with the inclusion of a fracture stimulation in the Green #2 well, however bottom hole conditions following the need to sidetrack the Green #2 well did not prove suitable for such an operation to be attempted. It is planned that a future well will be designed to test the ability to stimulate the Tex Miss 2/3 zone and unlock the significant upside potential from this zone in future drilling campaigns.

SM71 F5 well

On 20 February 2020 Otto announced that the SM71 joint venture had elected to undertake the drilling of the F5 well at the SM71 field. The well will be drilled using the Enterprise 264 currently at the SM71 F platform and is expected to commence drilling in March 2020.

No other matters or circumstances have arisen since 31 December 2019 that would have a material impact on the Group's operations.

DIRECTORS' DECLARATION

For the half-year ended 31 December 2019

In accordance with a resolution of the Directors of Otto Energy Limited, I state that:

1. In the opinion of the Directors:

   a. the financial statements and notes of Otto Energy Limited for the half-year ended 31 December 2019 are in accordance with the *Corporations Act 2001,* including:

      (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

      (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

   b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

I Bos

Mr I Boserio
Director
12 March 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Otto Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Otto Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001 including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Phillip Murdoch

Director

Perth, 12 March 2020

PROSPECTIVE RESOURCES REPORTING NOTES

- The prospective resources information in this document is effective as at the dates below (Listing Rule (LR) 5.25.1):
  - SM 71, Hilcorp portfolio – 30 June 2019
  - GC-21 – 29 October 2019
- The prospective resources information in this document has been estimated and is classified in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) (LR 5.25.2).
- The prospective resources information in this document is reported according to the Company's economic interest in each of the resources and net of royalties (LR 5.25.5).
- The prospective resources information in this document has been estimated and prepared using the probabilistic method for the Hilcorp portfolio and the deterministic method for SM 71, Winx-1 and VR 232 (LR 5.25.6).
- The prospective resources information in this document has been estimated using a 6:1 BOE conversion ratio for gas to oil; 6:1 conversion ratio is based on an energy equivalency conversion method and does not represent value equivalency (LR 5.25.7).
- The prospective resources information in this document has been estimated on the basis that products are sold on the spot market with delivery at the sales point on the production facilities (LR 5.26.5.)
- Prospective resources are reported on a best estimate basis (LR 5.28.1).